

# WORKING CAPITAL FUND

## FY 2001 Mid-year Report: Summary

### I. Relation of Earnings to Expenses

- \$ Each business is expected to achieve a balance between annual earnings=(billings to customers pursuant to Board-approved pricing policies) and expenses=(accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.
- \$ During the first half of FY 2001, business earnings exceeded business expenses by \$2 million as shown in Table I.i . These aggregate results are due largely to reporting patterns in the Building Occupancy business line; these matters, and issues affecting other businesses, are discussed further below. No business seeks changes to its pricing policies for FY 2001.

WORKING CAPITAL FUND			
TABLE I.i. FY 2001 Mid-year Business Results (in Millions)			
<u>Business Line</u>	Mid-year Earnings	Mid-year Business Expenses	Mid-year Net
Supplies	\$1.9	\$2.0	\$-0.1
Mail	\$0.9	\$1.1	\$-0.2
Copying	\$1.2	\$1.1	\$0.1
Printing/Graphics	\$1.8	\$1.6	\$0.2
Building Occupancy	\$28.4	\$26.3	\$2.1
Telephones	\$3.4	\$3.5	\$-0.1
Desktop	\$0.6	\$0.7	\$-0.1
Network	\$3.3	\$3.5	\$-0.2
Contract Closeout	\$0.3	\$0.3	\$0.1
Payroll & Personnel	\$1.6	\$1.2	\$0.4
<b>TOTAL</b>	<b>\$43.5</b>	<b>\$41.3</b>	<b>\$2.2</b>

## Discussion

- The Building Occupancy Business Line reported net earnings of \$2.1 million for the first half. The primary reason is that while earnings reflect equal quarterly distribution of the Board-approved improvements program, and also reflect the value of building alterations when they are ordered, the expenses for both complex-wide and individual customer improvements lag behind the reporting of earnings, creating the appearance of a net profit. Further, the business line reports that successful negotiations with GSA may free up FY 2001 resources to apply to acceleration of some planned FY 2002 improvements. The Fund Manager has asked the business line to review the scheduling and prioritization of building improvements with the working group, and to bring back to the Board a proposal for any further scheduling changes.
- Supply Business Line has negative net earnings of \$124,000 for the first half related to non-operating expenses: write-off of obsolete forms (\$102,000) and write-off of capital assets (\$101,000). This business discontinued operations this quarter (discussed below).
- The Mail Business Line had negative net earnings of \$222,000 for the first half that result from discounts offered customers to draw down past years' profits. Discounts previously applied to mail stops will end this year. The FY 2002 budget is projected at full cost.
- The Copy Business Line has net earnings of \$63,000 for the first half that are the result of one-time prior year adjustments to accruals.
- The Printing and Graphics Business has net earnings of \$159,000, in part because the purchase and drawdown of the inventory of stationary from the supply business line was not yet factored into reporting, even though the revenues from sales of these materials were recorded as earnings. Also, there was a one-time prior year adjustments to accruals.
- The Telephone Business Line has negative net earnings of \$56,000 for the first half that result from a slight under pricing of fixed infrastructure and depreciation expenses. The business line manager asserts that this will be adjusted when invoices have been processed and that there is no need for a change in pricing policy.
- The Desktop Business Line has negative net earnings for the first half of \$90,000. This amount understates operating losses by \$182,000 that result from a prior year accrual reversal. Both desktop training and desktop repair are not generating enough earnings to cover overhead. The CIO has initiated a process to solve the problem.
- The Network Business Line has negative net earnings for the first half of \$205,000. This results from one time prior year charges to closeout the DYNCORP contract.
- The Contract Closeout Business Line has net earnings of \$70,000. This performance is consistent with past years, where more final closeouts are completed and earning recorded in

the first half of the year. The business is expected to break even for the year.

- The Payroll Business Line has net earnings of \$423,000 due to deferral of PeopleSoft implementation. The Fund Manager will discuss the proper disposition of these and other business fund balances after the decision this fall on whether to outsource payroll.<sup>1</sup>

### **Supply Business Line**

FY 2001 is a year of transition between two supply businesses in the Working Capital Fund. Operationally this transition should be virtually transparent to our customers. On the one hand, the DOE Supply Business Line run by the Office of Administration has gone out of business after four years and six months of operations. On the other hand, Paper Clips, the office supply store name assigned by Winston-Salem Industries for the Blind, an affiliate of the National Industries for the Blind (NIB), began store operations on March 26, 2001. For this reason, the supply businesses of the WCF will be treated for financial reasons as two businesses, which in fact they are. To our program customers there will be no apparent change in monthly billing; however, the method of financing this activity has changed significantly.

The DOE Supply Business financed its activities with an inventory of \$1.6 million and unobligated balances of \$0.9 million. Over four and one-half years of operations, an additional \$12.5 million in gross earnings were generated from goods sold. Costs during this period were \$13.5 million including write-off of obsolete inventory. In effect, beginning inventory financed the \$1.0 million of losses. Of the remaining inventory at the time of the transfer to PaperClips, \$94,000 was sold as inventory to the printing and copying business lines, \$102,000 were obsolete forms, which had no market value and were written off as an expense, and \$481,000 was sold to PaperClips. In effect, we are substituting one form of working capital (cash) for another (physical inventory). This will allow us to maintain an obligated balance on the new NIB contract at the end of each fiscal year, to ensure continuous operations into the new fiscal year. It is likely that we will need to retain a fund balance in the business that is approximately as large as the inventory sold to NIB.

As a result of its contractual relationship with the Department, PaperClips invoices the Fund each month for its costs. To the Department there is no inventory to value nor overhead to pay, but the cash balances will be used to pay the vendor.

**Supply Business Line (9/96 thru 3/01)**  
**Sources and Uses of Funds (in Millions)**

<b>Table I.ii.</b>					
<b>Beginning Inventory</b>	<b>Beginning Uncosted</b>	<b>New BA Earnings</b>	<b>Expenses</b>	<b>Ending Uncosted</b>	<b>Ending Unoblig</b>
\$ 1.6	\$ 0.9	\$ 12.5	\$ 13.5	\$ 1.4	\$ 0.1

## **II. Relation of Customer Payments to Anticipated Customer Billings**

<sup>1</sup> This paragraph altered to signify the uncertainty related to the decision to outsource payroll.

- Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund.
- By March, we had collected \$84.5 million (99.9%) of the estimated \$84.6 million in FY 2001 annual revenues. (Table II) These amounts can be compared to \$74.5 million (92%) of the estimated \$81.0 million in FY 2000 annual revenues in last year's mid-year report.

<b>WORKING CAPITAL FUND</b>			
<b>FY 2001 Mid-year Business Results (in Millions)</b>			
<b>TABLE II</b>			
<b><u>Business Line</u></b>	<b>Advances as of Mid-year (including carryover)<sup>2</sup></b>	<b>Anticipated Full Year</b>	<b>% Collected</b>
Supplies	\$ 4.2	\$ 2.7	100%
Mail	\$ 2.3	\$ 1.7	100%
Copying	\$ 3.6	\$ 2.5	100%
Printing/Graphics	\$ 3.1	\$ 3.7	84%
Building Occupancy	\$ 51.7	\$ 56.0	92%
Telephones	\$ 7.1	\$ 6.8	100%
Desktop	\$ 1.4	\$ 1.2	100%
Network	\$ 5.7	\$ 6.2	92%
Contract Closeout	\$ 0.7	\$ 0.7	100%
Payroll & Personnel	\$ 2.6	\$ 3.1	84%
<b>TOTAL</b>	<b>\$ 82.4</b>	<b>\$ 84.6</b>	<b>97%</b>

- While some program customers accounts are fully funded, the April bill requests that remaining customers pay the balance of their FY 2001 projected WCF costs. We anticipate no difficulties arranging for the remaining advances.

### III. Relation of Payments to Obligations by Business Line

There have been no violations of administrative control of funds procedures by WCF business

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<sup>2</sup> Carryover balances of \$2.1million exist in other than business accounts at the discretion of the program customers.

lines.

As shown in Table III, funds available exceeded obligations by an estimated \$36.8 million by the end of the first half of FY 2001. The rate of obligation is on track with annualized estimates.

<b>WORKING CAPITAL FUND</b>					
<b>FY 2001 Mid-year Business Results (in Millions)</b>					
<b>TABLE III</b>					
<b><u>Business Line</u></b>	<b>Unobligated Balance 3 10/00</b>	<b>Current Year Customer Advances</b>	<b>Total available for obligation</b>	<b>Mid-year Obligations</b>	<b>Advances Remaining to be Obligated</b>
Supplies	\$1.0	\$3.2	\$ 4.2	\$2.0	\$2.2
Mail	\$0.7	\$1.6	\$ 2.3	\$0.8	\$1.5
Copying	\$1.3	\$2.3	\$ 3.6	\$1.3	\$2.3
Printing/Graphics	\$0.3	\$2.8	\$ 3.1	\$1.7	\$1.4
Building Occupancy	\$1.0	\$50.7	\$ 51.7	\$27.2	\$24.5
Telephones	\$0.7	\$6.4	\$ 7.1	\$5.7	\$1.4
Desktop	\$0.1	\$1.3	\$ 1.4	\$1.5	\$-0.1
Network	\$0.3	\$5.4	\$ 5.7	\$4.8	\$0.9
Contract Closeout	\$0.1	\$0.6	\$ 0.7	\$0.5	\$0.2
Payroll & Personnel	\$0.0	\$2.6	\$ 2.6	\$0.1	\$2.5
<b>TOTAL</b>	<b>\$5.5</b>	<b>\$76.9</b>	<b>\$ 82.4</b>	<b>\$45.6</b>	<b>\$36.8</b>

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3 Carryover balances of \$2.1million exist in other than business accounts at the discretion of the program customers. These funds often act as working capital during the early weeks of a new fiscal year. These balances represent a liability of the fund and like other unearned customer advances, are uncommitted and can be returned to the customer at their request.

#### IV. Changes in Budget Estimates by Business Line and Customer

The FY 2001 estimate for December 1999 decreased \$3.4 million as the result of rent decreases but then increased in August 2000 as a result of DOENet charges added during the FY 2002 Corporate Review. The May 2001 estimate increased \$1.2 million due to building alteration charges and \$0.6 million due to printing charges experienced during FY 2001 execution. Except for these differences, aggregate estimates, as set forth in Table IV below, have changed little.

<b>TABLE IV : FY 2001 Budget Estimates for WCF Businesses</b>		
<b>Date</b>	<b>Process</b>	<b>FY 2001 Billing Estimate (\$Millions)</b>
May 1999	FY 2001 Corporate Review	\$83.6
December 1999	FY 2001 Congressional Budget	\$80.2
August 2000	FY 2002 Corporate Review	\$83.3
December 2000	FY 2002 Congressional Budget	\$83.9
May 2001	April WCF Bill	\$85.0

#### V. Anticipated Need to Change Pricing Policies

The Desktop Business Line, specifically the IT training and hardware maintenance segments, continues to have difficulty earning sufficient revenue to offset fixed costs. As a result, the business line manager is reviewing FY 2001 costs with the intent of making reductions where appropriate and, in some cases, possibly realigning costs with service activities presently outside the WCF business line. For example, training will transfer much of its computer-based function to the Online Learning Center and, for those limited training activities that it retains, will restructure its contractual costs to provide service on an "as needed" basis. The business will take measures to reduce costs or increase revenues while attempting to not impact the service expected from WCF customers.

## VI. Working Capital Fund Billing System

The Working Capital Fund billing system continues to perform well, and all monthly bills for the first half met the DISCAS cutoff dates. The following table presents the overall progress of the billing system in terms of timeliness.

**WCF Billing Performance**

